

A-9. Yes. For purposes of determining the source of distributions, the following rules apply:

(a) All distributions from all an individual's Roth IRAs made during a taxable year are aggregated.

(b) All regular contributions made for the same taxable year to all the individual's Roth IRAs are aggregated and added to the undistributed total regular contributions for prior taxable years. Regular contributions for a taxable year include contributions made in the following taxable year that are identified as made for the taxable year in accordance with § 1.408A-3 A-2. For example, a regular contribution made in 1999 for 1998 is aggregated with the contributions made in 1998 for 1998.

(c) All conversion contributions received during the same taxable year by all the individual's Roth IRAs are aggregated. Notwithstanding the preceding sentence, all conversion contributions made by an individual during 1999 that were distributed from a traditional IRA in 1998 and with respect to which the 4-year spread applies are treated for purposes of A-8(b) of this section as contributed to the individual's Roth IRAs prior to any other conversion contributions made by the individual during 1999.

(d) A distribution from an individual's Roth IRA that is rolled over to another Roth IRA of the individual in accordance with section 408A(e) is disregarded for purposes of determining the amount of both contributions and distributions.

(e) Any amount distributed as a corrective distribution (including net income), as described in A-1(d) of this section, is disregarded in determining the amount of contributions, earnings, and distributions.

(f) If an individual recharacterizes a contribution made to a traditional IRA (FIRST IRA) by transferring the contribution to a Roth IRA (SECOND IRA) in accordance with § 1.408A-5, then, pursuant to § 1.408A-5 A-3, the contribution to the Roth IRA is taken into account for the same taxable year for which it would have been taken into account if the contribution had originally been made to the Roth IRA and had never been contributed to the traditional IRA. Thus, the contribution to

the Roth IRA is treated as contributed to the Roth IRA on the same date and for the same taxable year that the contribution was made to the traditional IRA.

(g) If an individual recharacterizes a regular or conversion contribution made to a Roth IRA (FIRST IRA) by transferring the contribution to a traditional IRA (SECOND IRA) in accordance with § 1.408A-5, then pursuant to § 1.408A-5 A-3, the contribution to the Roth IRA and the recharacterizing transfer are disregarded in determining the amount of both contributions and distributions for the taxable year with respect to which the original contribution was made to the Roth IRA.

(h) Pursuant to § 1.408A-5 A-3, the effect of income or loss (determined in accordance with § 1.408A-5 A-2) occurring after the contribution to the FIRST IRA is disregarded in determining the amounts described in paragraphs (f) and (g) of this A-9. Thus, for purposes of paragraphs (f) and (g), the amount of the contribution is determined based on the original contribution.

Q-10. Are there examples to illustrate the ordering rules described in A-8 and A-9 of this section?

A-10. Yes. The following examples illustrate these ordering rules:

Example 1. In 1998, individual B converts \$80,000 in his traditional IRA to a Roth IRA. B has a basis of \$20,000 in the conversion amount and so must include the remaining \$60,000 in gross income. He decides to spread the \$60,000 income by including \$15,000 in each of the 4 years 1998-2001, under the rules of § 1.408A-4 A-8. B also makes a regular contribution of \$2,000 in 1998. If a distribution of \$2,000 is made to B anytime in 1998, it will be treated as made entirely from the regular contributions, so there will be no Federal income tax consequences as a result of the distribution.

Example 2. The facts are the same as in *Example 1*, except that the distribution made in 1998 is \$5,000. The distribution is treated as made from \$2,000 of regular contributions and \$3,000 of conversion contributions that were includible in gross income. As a result, B must include \$18,000 in gross income for 1998: \$3,000 as a result of the acceleration of amounts that otherwise would have been included in later years under the 4-year-spread rule and \$15,000 includible under the regular 4-year-spread rule. In addition, because the

\$3,000 is allocable to a conversion made within the previous 5 taxable years, the 10-percent additional tax under section 72(t) would apply to this \$3,000 distribution for 1998, unless an exception applies. Under the 4-year-spread rule, B would now include in gross income \$15,000 for 1999 and 2000, but only \$12,000 for 2001, because of the accelerated inclusion of the \$3,000 distribution.

Example 3. The facts are the same as in *Example 1*, except that B makes an additional \$2,000 regular contribution in 1999 and he does not take a distribution in 1998. In 1999, the entire balance in the account, \$90,000 (\$84,000 of contributions and \$6,000 of earnings), is distributed to B. The distribution is treated as made from \$4,000 of regular contributions, \$60,000 of conversion contributions that were includible in gross income, \$20,000 of conversion contributions that were not includible in gross income, and \$6,000 of earnings. Because a distribution has been made within the 4-year-spread period, B must accelerate the income inclusion under the 4-year-spread rule and must include in gross income the \$45,000 remaining under the 4-year-spread rule in addition to the \$6,000 of earnings. Because \$60,000 of the distribution is allocable to a conversion made within the previous 5 taxable years, it is subject to the 10-percent additional tax under section 72(t) as if it were includible in gross income for 1999, unless an exception applies. The \$6,000 allocable to earnings would be subject to the tax under section 72(t), unless an exception applies. Under the 4-year-spread rule, no amount would be includible in gross income for 2000 or 2001 because the entire amount of the conversion that was includible in gross income has already been included.

Example 4. The facts are the same as in *Example 1*, except that B also makes a \$2,000 regular contribution in each year 1999 through 2002 and he does not take a distribution in 1998. A distribution of \$85,000 is made to B in 2002. The distribution is treated as made from the \$10,000 of regular contributions (the total regular contributions made in the years 1998-2002), \$60,000 of conversion contributions that were includible in gross income, and \$15,000 of conversion contributions that were not includible in gross income. As a result, no amount of the distribution is includible in gross income; however, because the distribution is allocable to a conversion made within the previous 5 years, the \$60,000 is subject to the 10-percent additional tax under section 72(t) as if it were includible in gross income for 2002, unless an exception applies.

Example 5. The facts are the same as in *Example 4*, except no distribution occurs in 2002. In 2003, the entire balance in the account, \$170,000 (\$90,000 of contributions and \$80,000 of earnings), is distributed to B. The distribution is treated as made from \$10,000 of regular contributions, \$60,000 of conversion con-

tributions that were includible in gross income, \$20,000 of conversion contributions that were not includible in gross income, and \$80,000 of earnings. As a result, for 2003, B must include in gross income the \$80,000 allocable to earnings, unless the distribution is a qualified distribution; and if it is not a qualified distribution, the \$80,000 would be subject to the 10-percent additional tax under section 72(t), unless an exception applies.

Example 6. Individual C converts \$20,000 to a Roth IRA in 1998 and \$15,000 (in which amount C had a basis of \$2,000) to another Roth IRA in 1999. No other contributions are made. In 2003, a \$30,000 distribution, that is not a qualified distribution, is made to C. The distribution is treated as made from \$20,000 of the 1998 conversion contribution and \$10,000 of the 1999 conversion contribution that was includible in gross income. As a result, for 2003, no amount is includible in gross income; however, because \$10,000 is allocable to a conversion contribution made within the previous 5 taxable years, that amount is subject to the 10-percent additional tax under section 72(t) as if the amount were includible in gross income for 2003, unless an exception applies. The result would be the same whichever of C's Roth IRAs made the distribution.

Example 7. The facts are the same as in *Example 6*, except that the distribution is a qualified distribution. The result is the same as in *Example 6*, except that no amount would be subject to the 10-percent additional tax under section 72(t), because, to be a qualified distribution, the distribution must be made on or after the date on which the owner attains age 59½, made to a beneficiary or the estate of the owner on or after the date of the owner's death, attributable to the owner's being disabled within the meaning of section 72(m)(7), or to which section 72(t)(2)(F) applies (exception for a first-time home purchase). Under section 72(t)(2), each of these conditions is also an exception to the tax under section 72(t).

Example 8. Individual D makes a \$2,000 regular contribution to a traditional IRA on January 1, 1999, for 1998. On April 15, 1999, when the \$2,000 has increased to \$2,500, D recharacterizes the contribution by transferring the \$2,500 to a Roth IRA (pursuant to § 1.408A-5 A-1). In this case, D's regular contribution to the Roth IRA for 1998 is \$2,000. The \$500 of earnings is not treated as a contribution to the Roth IRA. The results would be the same if the \$2,000 had decreased to \$1,500 prior to the recharacterization.

Example 9. In December 1998, individual E receives a distribution from his traditional IRA of \$300,000 and in January 1999 he contributes the \$300,000 to a Roth IRA as a conversion contribution. In April 1999, when the \$300,000 has increased to \$350,000, E recharacterizes the conversion contribution by transferring the \$350,000 to a traditional IRA.